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DEVELOPMENTS IN INTRA-AFRICAN MONETARY AND FINANCIAL CO-OPERATION

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Developments in intra-African monetary and financial co-operation (Agenda item 5(c)

(i) Progress report on the Establishment of an African Monetary Fund (AfMF)

1. The Assembly of the Heads of State and Government of the Organization of African Unity at the Economic Summit held in Lagos, Nigeria, in April 1980, after considering the financial and monetary problems of the African countries decided, inter-alia that an African Monetary Fund (AfMF) should be established in the 1980s to assist in overcoming these problems. In view of the importance and urgency which the Heads of State and Government attached to this issue, they directed that a high-level Expert Group should be set up as soon as possible to study and recommend the modalities for the establishment of an African Monetary Fund and submit its report thereon to the Ministerial Follow-up Committee on International Trade and Finance for African Development not later than 1982.

2. In order to prepare the ground for the meeting of the high-level Expert Group, ECA organized a meeting of the representatives of the secretariats of the Organization of African Unity (OAU), the African Development Bank (ADB), the African Centre for Monetary Studies (ACMS), the African Institute for Economic Development and Planning (IDEP) and the West African Clearing House (WACH), in Addis Ababa from 5 to 7 April 1982. The ECA secretariat prepared the following documents which were reviewed at this meeting:

(a) Draft Terms of Reference on the Feasibility Study on the Establishment of an African Monetary Fund;

(b) Draft Guideline for the Feasibility Study on the Establishment of an African Monetary Fund;

(c) A Tentative Work Schedule for the Implementation of the Project of AFMF.

3. The documents were subsequently submitted to the meeting of a high-level group of experts from Ministries of Finance and Central Banks, which took place in Addis Ababa, Ethiopia from 4-7 October 1982. The meeting discussed and agreed on the modalities for the establishment of the proposed fund.

4. In view of the persistent balance of payments deficits and other problems facing most of the African countries, the Experts Group was of the opinion that the main objectives of an AfMF would be to further the socio-economic development of member States, through the promotion of financial and monetary co-operation among them. They felt that this could be achieved not only through the provision of financial assistance for balance of payments purposes, which would be additional to and not a substitute for that already provided by the IMF, but also through other forms of monetary and financial assistance.

5. As a result, the Experts Group proposed that the broad objectives of the African Monetary Fund should be, inter-alia to:

(a) assist in providing finance for balance of payments deficits on current accounts and for structural adjustment in the economies of member States to improve their balance of payments positions;

(b) promote the liberalization of trade and work towards the eventual elimination of payments restrictions among countries of the region and to facilitate the linkage of all the sub-regional clearing and payments arrangements into an African Clearing and Payments Union which may constitute a window within the AfMF; and

(c) promote co-operation in monetary policies among countries of the region and work towards the development and eventual establishment of an African Common Currency.

6. The meeting further decided that studies should be undertaken by such African institutions as ECA, OAU, ADB, ACMS and IDEP. It also adopted with some amendments, the terms of reference of the feasibility study on the establishment of the proposed AfMF guidelines for the feasibility study on its establishment and a tentative work schedule for the implementation of the Fund project.

7. An important stage in the implementation of the project has been the recruitment of a co-ordinator to co-ordinate and finalize the various technical studies relating to the feasibility study on the establishment of the AfMF. Since November 1982, efforts are continuing to recruit a suitable person who has the background and experience of working as a governor, deputy governor or executive director of a Central Bank or has held a senior position in a similar financial institution or an appropriate international financial organisation.

8. Additional efforts were made through the assistance of UNDP Resident Representatives and Governors of Central Banks of selected African countries to identify a suitable person for the purpose. With their assistance, several candidates have been identified and the secretariat is now in the process of recruiting an appropriate person for this post. The assignments for carrying out the various technical studies relating to the establishment of the AfMF have been distributed among the co-operating secretariats. 1/ Therefore, the need for the co-ordinator will arise only when the studies are completed for the purpose of co-ordinating them into a single feasibility study; hence, his services would be required only for a period of four months in 1984.

1/ In view of the difficulty in recruiting a co-ordinator, ECA convened a meeting of the co-operating secretariats during the Nineth Meeting of the ECA Conference of Ministers at which various technical studies relating to the feasibility study on the establishment of an AfMF were allocated among the co-operating secretariats.

9. A progress report on the establishment of the proposed Fund was prepared and presented to the Nineth Meeting of the ECA Conference of Ministers held in Addis Ababa from 1 to 2 May 1982 2/. In this respect, the Conference of Ministers, noted with satisfaction the progress so far achieved towards the establishment of the Fund, and expressed its appreciation for the generous financial support provided by the Algerian Government towards the implementation of this important project. The Conference of Ministers adopted a resolution3/ appealing to all African Governments to lend their political and financial support for the establishment of the proposed Fund as well as urging the African regional financial institutions such as the ADB and the ADF, also to make financial contributions towards the realisation of this objective.

10. In view of the fact that the financial support provided by Algeria for carrying out the activities relating to the feasibility study on the establishment of the proposed Fund would be completely exhausted by the end of this year, a project document was prepared for submission to the pledging conference which was held in Addis Ababa following the ECA Conference of Ministers but the response from African countries and other donors was very unsatisfactory.

11. The co-operating secretariats are now in the process of preparing desk studies on the relevant aspects of the feasibility study. Further action required would be along the following lines:

(a) Missions to be mounted to relevant institutions within and outside Africa - September - November 1983.

(b) Preparation and completion of technical studies by the respective co-operating secretariats - December 1983 to March 1984.

(c) Finalization and co-ordination of all technical studies into one unified feasibility study - April - June 1984.

(d) Convening of the second meeting of the Intergovernmental Group of Experts to review the feasibility study - September 1984.

(e) Drafting the Articles of Agreement of the AfMF, on the basis of the feasibility study as approved by the Second Expert Group Meeting - October - November 1984.

(f) Third meeting of the Intergovernmental Group of Experts to be held in conjunction with that of the Legal Experts from the respective countries of the continent to review the Articles of Agreement of the AfMF and to make appropriate recommendations to the joint Conference of Ministers of Finance, Trade and Governors of Central Banks - February 1985.

2/ Document E/ECA/Cm.9/9

3/ Resolution No. 467(XVIII).

(g) Joint Conference of the Ministers of Finance and Trade and the Governors of Central Banks to consider the reports of the Experts Group on the Articles of Agreement and to make appropriate decisions - March 1985.

(h) Conference of Plenipotentiaries to adopt and sign the Articles of Agreement - June 1985.

(i) Entering into force of the Articles of Agreement - October 1985.

(j) Ratification of the Articles of Agreement - July - October 1985.

(k) Drafting the By-laws, Rules and Regulations of the AfMF on the basis of its Articles of Agreement - October-November 1985.

(l) Countries to nominate their respective Governors who would constitute the Board of Governors of the AfMF - October 1985.

(m) Nomination of the Executive Directors of the AfMF by the Board of Governors in accordance with the Articles of Agreement - November 1985.

(n) Appointment of the Managing Director by the Board of Executive Directors and the appointment of other core staff - December 1985 - March 1986.

(o) Commencement of operations of the AfMF - May 1986.

12. The above can be achieved within this time frame provided sufficient funds are made available for the purpose. To this end, additional resources of about US$552,000 would be needed for the full implementation of the project beyond the current year as per details below:4/

Experts/Consultants	US$240,000
Administrative support	" 24,000
Travel	" 36,000
Meetings	" 170,000
Miscellaneous	18,000
13% Programme support	" 64,000
Total	US$552,000

(ii) Progress Report on the Establishment of Clearing and Payments Arrangements in Eastern and Southern African States

13. The Lagos Plan of Action stresses that the development and expansion of intra-African trade constitutes the "main stay" of the strategy for self-sustaining and self-reliant economic development. However, the present level of

4/ In this respect, attention is drawn to the ECA Conference of Ministers Resolution No. 467(XVIII) wherein the Conference of Ministers appealed to the African Governments to lend their political and financial support for the establishment of the proposed Fund.

intra-African trade is too low to generate a faster rate of economic growth. One of the basic reasons for this is the absence of effective clearing and payments arrangements which can enable the use of national currencies of member States in settlement of trade transations among themselves, thereby reducing the use of scarce foreign exchange.

14. The expansion of intra-African trade depends, to a great extent, on the existence of effective clearing and payments arrangements. In the absence of such clearing and payments arrangements, payments are generally made in foreign exchange, thereby reducing still further the countries' meagre foreign exchange resources. Furthermore, since payments are processed by one or more foreign banks situated in metropolitan countries, there are often delays and consequently additional costs in settlement of payments. The existence of a Clearing House will, therefore, assist the countries in overcoming these problems.

15. The Intergovernmental Negotiating Team (INT) for the establishment of the Preferential Trade Area (PTA) for Eastern and Southern African States and the Eastern and Southern African Subregional Committee of the Association of African Central Banks having taken into consideration the problems faced by the member States, requested ECA to assist them in preparing the draft protocol on clearing and payments arrangements for Eastern and Southern Africa. Accordingly, the ECA prepared the protocol and the relevant PTA Treaty provisions on Clearing and payments Arrangements. These documents were reviewed by the INT as well as by the Governors of the Central Banks of the subregion at various times and were adopted by them with some amendments.

16. In addition, the ECA, the International Monetary Fund, the African Centre for Monetary Studies and the West African Clearing House jointly drafted the rules and regulations of the proposed Clearing House for the subregion. These rules and regulations were discussed by the Governors of the Central Banks of the subregion at their meeting held in Kigali, Rwanda, in August 1982 and referred them to the inaugural meeting of the PTA Clearing and Payments Committee for consideration and adoption.

17. In preparation for the inaugural meeting of the PTA Clearing and Payments Committee which is the supervisory body of the Clearing House, ECA prepared the following documents:

(a) Proposals for the implementation of the relevant PTA Treaty provisions and the Protocol on Clearing and Payments Arrangements for Eastern and Southern Africa; and

(b) Terms of Reference of the Clearing and Payments Committee.

18. The above documents and the rules and regulations for the operations of the Clearing House were presented for consideration to the Inaugural Meeting of the PTA Clearing and Payments Committee which took place in Lusaka, Zambia from 1 to 4 November 1982. The Committee reviewed the documents and adopted them with some amendments.

19. With regard to the actual establishment of the Clearing House, the Committee decided that, a monetary authority of one of the member States should be designated to host the Clearing House for an interim period not exceeding two years; that the ECA secretariat should invite offers from the Monetary Authorities of the member States to host the Clearing House for the interim period; and that such offers should be made not later than 31 December 1982.

20. The report of the Committee was presented to the meetings of the Intergovernmental Commission of Experts and the PTA Council of Ministers held in Lusaka in December 1982. The Council of Ministers adopted the Committee's recommendations with an amendment of extending the time for receiving offers from the Monetary Authorities up to 31 January 1983.

21. In compliance with the decision of the PTA Council of Ministers, all the Monetary Authorities of the member States were requested to make offers to host the Clearing House for the interim period. In response, offers were received from the Central Banks of Uganda and Zimbabwe. These offers were considered by the PTA Clearing and Payments Committee at its meeting held in Mauritius from 1 to 2 August 1983 and accepted the offer from the Central Bank of Zimbabwe to host the Clearing House for the interim period of two years.

(iii) Progress Report on the Establishment of a Trade and Development Bank for Eastern and Southern African States

22. In January 1980, the Lusaka MULPOC Council of Ministers at its third meeting held in Gaborone, Botswana, decided that the ECA in close collaboration with the African Development Bank and the African Centre for Monetary Studies should undertake a feasibility study on the establishment of a subregional development bank for Eastern and Southern African States and that in so doing the ECA secretariat should look into the possibility of expanding the East African Development Bank into the required subregional bank subject to the willingness of the three East African States jointly owning the Bank. The Council of Ministers further directed that the study should be circulated to the member States of the subregion and that a meeting of the representatives of the Ministries of Finance and Central Banks be convened to consider the study.

23. In compliance with the decision of the Council of Ministers, the study was undertaken by the three organizations and presented to the joint session of the fourth meeting of the Lusaka MULPOC Council of Ministers and the second Extraordinary Conference of Ministers of Trade, Finance and Planning, held in Maseru, Kingdom of Lesotho from 18 to 21 January 1981.

24. The Ministers decided that the scope of the functions of the proposed Bank be widened to include the financing of trade in the subregion and directed the ECA to undertake the additional study on trade financing as an addendum to the main Bank study. These documents, the Ministers directed, should be submitted to a meeting of experts from Central Banks and Ministries of Finance of the subregion for their in-depth consideration.

25. Accordingly, the ECA carried out the additional study on trade financing as an addendum to the main Bank study and thereafter the documents (the main bank study and addendum) were presented to the meeting of experts from Central Banks and Ministries of Finance which was held in Addis Ababa from 12 to 16 May 1981. The experts were, however, of the view that the terms of reference on which the study was based, were inadequate and that the study was incomplete in some aspects. The experts, therefore, drew up new terms of reference on the basis of which the new technical study on the establishment of the Trade and Development Bank for Eastern and Southern African States could be undertaken. The expert group submitted their report to the Committee of Officials of the Lusaka MULPOC who adopted the new terms of reference as amended by them. They submitted their recommendations to the Resumed Session of the Englarged Conference of Ministers of Trade, Finance and Planning of Eastern and Southern African States held in Addis Ababa from 18 to 21 May 1981. The Conference of Ministers endorsed the new terms of reference and directed that a new technical study should be undertaken and submitted for their consideration at their meeting scheduled to be held in October 1981.

26. The new technical study was submitted to the third Extraordinary Conference of Ministers of Trade, Finance and Planning of Eastern and Southern African held in Addis Ababa, Ethiopia, from 12 to 15 October 1981 for consideration and decision. After an extensive discussion the Conference of Ministers decided to take note of the technical study and to refer it along with the related draft charter to a meeting of an Intergovernmetnal Team of Experts from the Ministries of Trade, Finance and Planning and Central Banks to be convened as soon as possible after the signing of the PTA Treaty for consideration and making appropriate recommendations thereon to the PTA Council of Ministers.

27. To minimize the number of meetings, it was subsequently decided that the PTA Clearing and Payments Committee which includes experts from Ministries of Trade, Finance and Planning and Central Banks should be given the opportunity to examine the study. Accordingly, the study was again presented at the Inaugural Meeting of the PTA Clearing and Payments Committee held in Lusaka, Zambia, from 1 to 4 November 1982. The Committee commended the work done on the new technical study and was of the view that the study had answered all the questions raised in respect of the first study and unanimously accepted it.

28. The Committee stated further that it recognized the need for the establishment of the Trade and Development Bank for Eastern and Southern African States. It however requested member States to send their views, if any, to the ECA Secretariat in this respect. The Committee also decided that the new technical study and related charter be presented to a meeting of an Intergovernmental Group of Experts from Ministries of Finance, Planning and Trade as well as from Central and Development Banks to be held in July 1983 or a little later to review the study and make appropriate recommendations to the PTA Council of Ministers for the establishment of the Trade and Development Bank for the subregion.

29. The report of the Committee was presented to the Intergovernmental Commission of Experts and the PTA Council of Ministers Meetings held in Lusaka, Zambia, in December 1982. The Council of Ministers endorsed the Committees' recommendations. The PTA secretariat is therefore expected to organise the

the required meeting of experts before the end of the current year to consider the study and make appropriate recommendations to the PTA Council of Ministers for the establishment of the proposed subregional Trade and Development Bank.

(iv) Progress report on the Central African Clearing House

30. During the period under review, the Central African Clearing House organised a seminar in Pointe-Noire, Republic of Congo from 1 to 5 March 1983. to acquaint member Central and Commercial Banks with the mechanisms involved in clearing arrangements. The seminar dealt in-depth with how the Clearing House could be utilized by its members without hampering its efficiency. Moreover, papers were presented by relevant organizations on the following topics:

i) the modalities of functioning and advantages of the Central African Clearing House (CACH): The paper was prepared and introduced by the Central African Clearing House;

ii) the experience of West Africa: the paper was prepared and introduced by the West African Clearing House;

iii) the role of Commercial Banks in clearing and arrangements: the paper was prepared and introduced by ECA;

iv) evaluation of the mechanisms for compensation: the paper was prepared and introduced by Commercial Banks and Chambers of Commerce.

31. Participants took advantage of the papers presented and the discussion thereon and exchanged views on the experiences of their countries in the respective subject areas. In conclusion, participants agreed that Commercial Banks, Central Banks and Chambers of Commerce should work closely with the Clearing House with a view to publicizing its activities.

(v) Progress Report on the West African Clearing House

32. The West African Clearing House organized two workshops from 23 to 25 March 1982 and from 17 to 19 November 1982 on the West African Clearing House procedures and practices. All participants were from among the operational staff of the member Central Banks of the West African Clearing House and from those of Commercial Banks. The West African Clearing House also plans to organise a number of similar seminars aiming at publicising the activities of the Clearing House and solving practical problems encountered in clearing operations in the few forthcoming years.